



## Request for City Council Committee Action From the Finance Department

Date: October 1, 2003  
To: Ways and Means Committee  
Referral to: None

### Subject

### Recommendation

Receive and File

### Previous Directives

(any past Council actions or directions to staff)

Prepared or Submitted by (name, title, phone)

Approved by: Patrick Born, City Finance Officer \_\_\_\_\_

John Moir, City Coordinator \_\_\_\_\_

Presenters in Committee (name, title)

### Financial Impact (Check those that apply)

- ☐ No financial impact - or - Action is within current department budget.  
(If checked, go directly to Background/Supporting Information)
- ☐ Action requires an appropriation increase to the Capital Budget
- ☐ Action requires an appropriation increase to the Operating Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☐ Other financial impact (Explain):
- ☐ Request provided to the Budget Office when provided to the Committee Coordinator

### Community Impact (use any categories that apply)

- ☐ Neighborhood Notification
- ☐ City Goals
- ☐ Comprehensive Plan
- ☐ Zoning Code
- ☐ Other
- ☐ Not applicable

**Background/Supporting Information Attached**

Date: October 1, 2003

To: Patrick Born  
Finance Officer

From: Michael Nguyen  
Director, Treasury Division

Re: Credit Card Convenience Fee

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## **INTRODUCTION**

During the City's 2004 budget hearing process, Regulatory Services propose to charge a credit card fee, commonly known as a convenience fee, to customers who wish to use credit cards payment. The acceptance of credit cards imposes a direct cost to City departments. Convenience fees attempt to recoup this cost by passing the fees along to the customer. While the use of convenience fees was approved by the Legislature during the 2003 session, the City has not passed on the additional cost of this payment method. The Finance Department is currently reviewing this policy option and this memorandum is intended to brief the Ways and Means Committee on the various issues involved in this decision.

## **BACKGROUND**

Credit cards are a widely accepted form of payment throughout numerous City departments, including the Library and Park Boards. On the average, revenues via credit card payments represent approximately 3-4% of total revenue for departments that accept credit cards. Total revenue paid via credit cards average \$12 million annually since 2001 with an average cost to the City of \$250,000 annually. The latter amount represents an average 2% transaction cost. Within the universe of merchant transaction providers, the 2% rate incurred by the City is highly competitive.

Throughout the City, and including the Library and Park Boards, the acceptance of credit card payments varies in volume and average dollar transaction. Due to the diverse nature of business services provided throughout the City and its agencies, this mixture is not unexpected. Typical transactions may involve payment for park golf course fees where the number of customers using credit cards is high but the average dollar transacted is low. In contrast, transactions within Inspections are usually of high dollar transaction but with low volume usage. These two examples represent the differing type of credit card transactions within the City and as a result, a broad base convenience fee policy will require careful crafting as to not discourage nor create disincentives for customer payments.

## **ISSUES AND PARAMETERS**

Notwithstanding the diversity of transaction types, there are several other issues facing the implementation of a City-wide convenience fee. The City's current contract with Wells Fargo Merchant Services, prohibits the City from "imposing a surcharge on or otherwise make the Cardholder responsible for any part of the discount charged to Merchant by the Financial Institution". The City's banking services contracts expires at the end of 2004. In order to implement a convenience fee, the City would be required to terminate the contract or renegotiate the terms of the existing contract.

Current efforts by Visa and MasterCard also require that merchants may not discriminate against payment types. For example, the City may decide to charge a convenience fee for credit card usage while not charging a fee for other forms of electronic payments such as one-time ACH debits. Visa and MasterCard argue that this places them at a disadvantage and have lobbied for convenience fees, if one is charged, to be place upon both forms of payment.

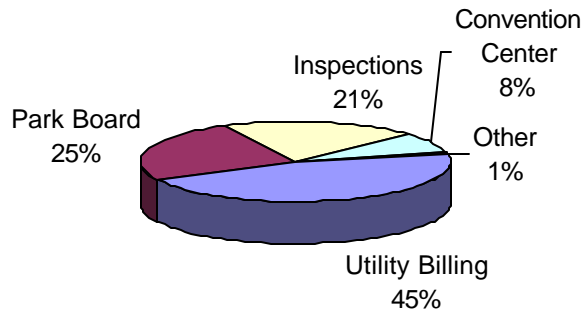
Further complicating this issue is the fact that the City should not discourage payment options from its customers. Although credit card usage entails a direct business cost, the convenience to customers and guaranteed payment from the credit provider contributes to the City's cash flow and minimizes collection efforts. Moreover, the City has begun several initiatives to expand its e-payment capabilities to include the convenience of one-stop shopping kiosks, on-line e-permitting activities, and the expansion of e-payment options at its parking ramps. E-payments, including credit cards, enhance the efficiencies of cash collection efforts while strengthening internal controls and reducing required labor cost. While the acceptance of credit cards results in transaction fees incurred by the City, the offsetting benefits should outweigh the business cost. From this perspective, the imposition of a convenience charge may adversely impact the desired outcome of e-payment initiatives.

## **NEXT STEPS**

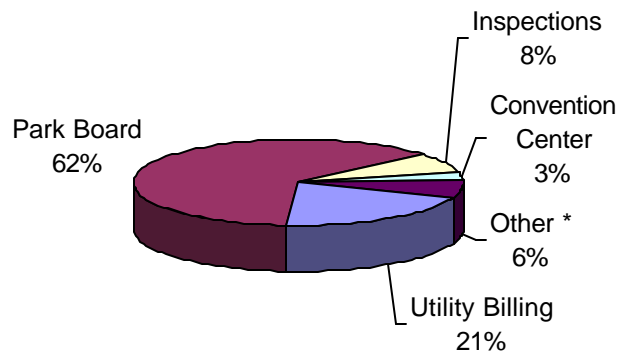
The Finance Department will be considering several business strategies to determine the impact and appropriateness of charging a credit card convenience fee. The outcome will mostly likely be a scenario, or a combination of the scenarios listed below.

1. Directly charge a convenience fee (either as a percentage or fixed fee) to all credit card transactions. This fee would also be required for those initiating a one-time ACH transaction.
2. Build the transaction cost into each City department, Library and Park Board fee structure. Credit card costs are currently built into the water/sewer rate structure as a cost of business. The City may also wish to set a threshold on the dollar amount for which credit card payments will be accepted to minimize transaction cost.
3. Encourage use of ACH or debit cards including offering a one-time credit for signing up for ACH payment.

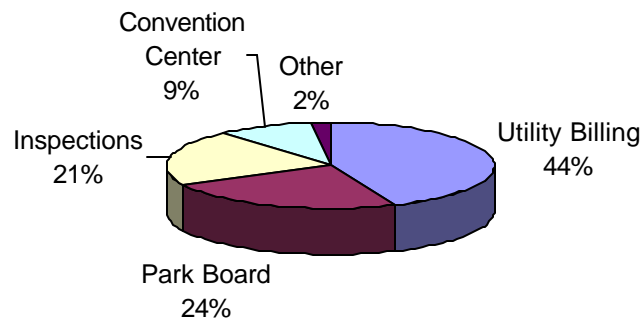
### YTD 2003 Credit Card Revenue



### YTD 2003 Credit Card Volume



### YTD 2003 Credit Card Fees



Total	2001 Actual		2002 Actual		2003 Budget	
Revenue (000's)	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total
Utility Billing	164,401	49%	168,236	48%	171,760	48%
Park Board	66,753	20%	70,978	20%	69,402	20%
Inspections	16,345	5%	16,209	5%	16,244	5%
Convention Center	56,750	17%	58,756	17%	63,404	18%
Other (Library, Parking, Licenses)	31,884	9%	33,869	10%	33,730	10%
<b>Total</b>	<b>336,133</b>	<b>100%</b>	<b>348,048</b>	<b>100%</b>	<b>354,540</b>	<b>100%</b>
Credit Card	2001 Actual		2002 Actual		YTD Aug 2003	
Revenue (000's)	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total
Utility Billing	4,529	40%	5,913	43%	5,052	45%
Park Board	2,901	26%	3,032	22%	2,760	25%
Inspections	2,759	24%	3,049	22%	2,283	21%
Convention Center	1,065	9%	1,507	11%	849	8%
Other (Library, Parking, Licenses)	90	1%	144	1%	164	1%
<b>Total</b>	<b>11,344</b>	<b>100%</b>	<b>13,645</b>	<b>100%</b>	<b>11,108</b>	<b>100%</b>
Credit Card Fees	2001 Actual		2002 Actual		YTD Aug 2003	
	Dollars	% of Rev	Dollars	% of Rev	Dollars	% of Rev
Utility Billing	92,622	2.0%	115,766	2.0%	97,336	1.9%
Park Board	69,918	2.4%	70,656	2.3%	53,555	1.9%
Inspections	53,727	1.9%	57,430	1.9%	46,157	2.0%
Convention Center	26,351	2.5%	38,336	2.5%	20,917	2.5%
Other (Library, Parking, Licenses)	2,286	2.5%	3,927	2.7%	4,525	2.8%
<b>Total</b>	<b>244,904</b>	<b>2.2%</b>	<b>286,115</b>	<b>2.1%</b>	<b>222,490</b>	<b>2.0%</b>
Volume	2001 Actual		2002 Actual		YTD Aug 2003	
	Count	% of Total	Count	% of Total	Count	% of Total
Utility Billing	17,680	16%	27,875	21%	25,092	21%
Park Board	80,218	71%	81,015	61%	76,576	63%
Inspections	9,110	8%	12,626	9%	9,315	8%
Convention Center	5,443	5%	6,543	5%	3,505	3%
Other (Library, Parking, Licenses) *	551	0%	5,648	4%	7,868	6%
<b>Total</b>	<b>113,002</b>	<b>100%</b>	<b>133,707</b>	<b>100%</b>	<b>122,356</b>	<b>100%</b>
* Increased volume in 2002 is due to 10th and Washington Ramp service.						

	<b>2001 Actual</b>		<b>2002 Actual</b>		<b>YTD Aug 2003</b>	
<b>Avg. \$ per Trans.</b>	<b>Dollars</b>		<b>Dollars</b>		<b>Dollars</b>	
Utility Billing	256.17		212.13		201.34	
Park Board	36.16		37.43		36.04	
Inspections	302.85		241.49		245.09	
Convention Center	195.66		230.32		242.23	
Other (Library, Parking, Licenses)	163.34		25.50		20.84	
<b>Total</b>	<b>100.39</b>		<b>102.05</b>		<b>90.78</b>	